Winkworth

M Winkworth Plc

Audited final results for the year to 31 December 2017

M Winkworth plc ("Winkworth" or the "Company") is pleased to announce its results for the year ended 31 December 2017

Highlights for the year

- Revenues of £5.42 million broadly flat against prior year despite challenging market conditions (2016: £5.57 million)
- Profit before taxation £1.38 million (2016: £1.42 million)
- Cash generated from operations £1.70 million (2016: £1.12 million)
- Year end cash balance increased to £3.58 million (2016: £2.97 million)
- Rental income increased to 46% of total revenues
- Seven new offices opened and three resold to new management
- Dividends of 7.25p declared and paid (2016: 7.2p)

Dominic Agace, CEO of the Company, commented:

"These good results were achieved against a testing background and we believe that a broadly flat market will continue to suit our franchise model. Our combination of local expertise, history and knowledge, combined with an evolving platform which drives leads to our office network under the umbrella of an established national brand, is a formula for success. We remain debt free, with a strong cash position and an increasing number of opportunities to grow in 2018."

For further information please contact:

M Winkworth Plc	**Tel: 020 7355 0206**
Dominic Agace (Chief Executive Officer)	
Andrew Nicol (Chief Financial Officer)	
Milbourne (Public Relations)	**Tel: 020 3540 6458**
Tim Draper	
Stockdale Securities Ltd (NOMAD and Broker)	**Tel: 020 7601 6100**
Robert Finlay	
Ed Thomas	

About Winkworth

Established in Mayfair in 1835, Winkworth is a leading franchisor of residential real estate agencies with a pre-eminent position in the mid to upper segments of the sales and lettings markets. The franchise model allows entrepreneurial real estate professionals to provide the highest standards of service under the banner of a well-respected brand name and to benefit from the support and promotion that Winkworth offers.

Winkworth is admitted to trading on the AIM Market of the London Stock Exchange.

For further information please visit: www.winkworthplc.com

Chairman's Statement

2017 was a challenging year for estate agents given evolving market conditions and a reduction in sales volumes. The strength of the Winkworth franchise model, however, has demonstrated the benefit of having individually-owned businesses, which are more resilient to market change, and this is reflected in our results. Our franchisees have been able to achieve average turnover of almost £500,000 per office, well above the average turnover of our franchise competitors.

While always seeking ways to enhance our offering, we have adhered to our proven formula of concentrating on excellent levels of service and long-term relationships through our network of some 100 medium-sized offices. This business model makes us attractive to incoming franchisees as they are able to achieve more than they could were they employed at a top level elsewhere, especially at a time when many are scaling back their operations. Winkworth's efficient and economic logistics systems allow our franchisees to focus their efforts on servicing their clients and carrying out viewings.

On flotation, Winkworth targeted expansion out of London in order to grow. This process has gathered pace and we welcome the new businesses that joined us in 2017 and the pipeline of offices for 2018. These have generally flowed from experienced estate agents making new starts, but we have also seen growth from the regeneration of some of the older Winkworth franchises where previous owners have retired and sold. We expect this trend to continue as many of the Winkworth franchisees commenced trading in the 1980s. Both routes provide us with a suitable base for growth.

It has been the Winkworth principle to make sure that our offices have sufficient economic turnover. This is a natural business plan for a proprietor franchisee and it has proved to be a successful policy. We continue to develop systems and services which enable our franchisees to deliver the best local and national service. In particular, we have continued to work on projects to enhance our relationships with both landlords and tenants, and I am pleased to note the ongoing growth of our rental business.

We do not believe in developing competing brands, nor do we see any value in acquisitions at present. We expect to see some market consolidation as like-minded, non-competing companies consider merging as a way of achieving cost savings and growth. We will ourselves be alert to such opportunities but without burdening our shareholders with debt, which we consider as inappropriate at this point of the cycle.

I congratulate the management and our franchisees on their performance in 2017 and a strong start to 2018.

Simon Agace
Non-Executive Chairman
27 March 2018

CEO's Statement

2017 was a year that was once again affected by political developments, with an unexpected snap election and the ensuing uncertainty surrounding the government's mandate to drive a Brexit deal through, weighing on buyer sentiment in the latter half. This led to a depressed level of transactions despite the positive underlying factors of high employment and low interest rates. Despite this, and as predicted, Winkworth reverted to a more normalised year. The mini boom caused by buyers looking to beat the additional stamp duty tax of 3% on second properties in the first half of 2016 was not repeated and, once again, we achieved more of our income in the second half.

Against this background we saw a sustained rise in sales activity in central London, where demand has increased following price falls of some 15% since the stamp duty changes of Autumn 2014. Sales revenue in central London rose by 16% on 2016, with an increase in transactions of 8%. This supported the overall London performance, which came in at broadly flat at -1%. We are also particularly pleased to note that the average price of a property sold by Winkworth's London offices rose from £692,000 to £718,000, an increase of 4% despite property prices declining across the city over the course of the year. In addition, we recorded a rise in average percentage commissions, reflecting the value that customers put on trusted advisers in an uncertain market. We see this as endorsement of the strengthening Winkworth proposition.

Gross rentals revenue grew by 6% in 2017, reflecting the initiatives we have put in place to drive this sector of the business. Our corporate rentals department (CRD) continued to support above-trend performance, with 139 deals across the network with 61 different companies adding £283,000 in gross revenue to those franchisees with markets which are the most attractive for corporate relocation. This department has started well in 2018, with a significant increase in deals closed compared to the same period in 2017.

Property management revenue grew by 15%, a similar level to the 16% achieved in 2016, while country rental income was 9% higher. As a result of the increase in rental revenue we have moved closer to our goal of a 50/50 split between lettings and sales - at the end of 2017 our revenue split was 46% lettings and management and 54% sales, up from a 44/56 split in 2016.

Total gross revenues of the franchised office network in 2017 were flat at £46.2m (2016: £46.1m) with sales 5% lower at £24.8m (2016: £25.9m) and rentals up 6% to £21.3m (2016: £20.1m). London offices accounted for 80% of gross revenues (79%). Winkworth's revenues fell by 2.7% to £5.42m (2016: £5.57m) and profit before taxation was 2.8% lower at £1.38m (2016: £1.42m). Cashflow rose by 51.8% to £1.70m (2016: £1.12m), as a result of which the year end cash balance increased to £3.58 million (2016: £2.97 million).. Dividends of 7.25p were declared for the year (2016: 7.2p).

We see the current market as an opportunity to attract experienced and talented operators to the Winkworth network, as successful agents look to move into business ownership to gain greater control over their earnings potential. This has always been a key motivation and is providing us with the opportunity to re-invigorate the network in areas where some older franchisees are looking to exit. Three franchises were resold last year and four in 2016. The offices which were resold in 2016 increased their combined turnover on average by 15% in 2017, despite a more difficult market, and we would expect the offices resold in 2017 to add to this growth as the new operators drive their businesses to outperform the market.

We have put significant effort into developing our centralised departments to help us to gain market share. The client services department (CSD), which refers leads between offices, continued to grow, delivering £780,000 of revenue to the network in 2017. CSD is currently on track to exceed this figure in 2018 with 73 instructions to the end of February versus 53 in the same period of 2017. As this department grows, it also improves in efficiency, with the cost of a lead to franchisees falling from £170 in 2016 to £140 in 2017 and £80 so far in 2018, as the size of the network lowers the marketing costs to franchisees.

Following its launch in June 2017, centralised recruitment is progressing ahead of target, placing five candidates a month so far in 2018 and helping new offices to accelerate their launches with high quality employees. This activity also supports our new franchising efforts by increasing our connections with talented estate agents looking for new opportunities within the industry.

Finally, we are pleased that our updated website, launched in March 2017, has delivered more leads to our franchisees despite a weak second half of the year in terms of overall applicants. It has provided a robust platform for our digital evolution, enabling the launch of our vendor portal in November to which 40 offices have already signed up. We are pleased that it was recognised as website of the year at the Negotiator awards in November 2017.

We aim to continue to build on this success in 2018 with continued investment in the vendor portal for clients and the development of the landlord portal, ensuring we have a best in class website to offer existing and new franchisees. We will also be conducting nationwide digital campaigns to continue to drive leads. We are currently two months into our digital campaign and this is on track to deliver an additional 200,000 visits per month to our website and, in turn, to our franchisees.

Outlook

The underlying fundamentals of the market remain positive. Following the stamp duty changes introduced in 2014, asking prices have adjusted significantly downwards in central London and this is now increasingly the case in London zones 2 and 3. Sellers are accepting these reductions and this, in turn, is in some areas leading to improved levels of transactions despite applicant numbers remaining at low levels. We expect this trend to continue throughout the year and for the reduction in stamp duty for first time buyers to stimulate the lower end of the property market, feeding through to the upper levels in due course.

On the lettings side of the business, our applicants are tracking at some 12% ahead of the same period of last year, which should support further growth in 2018. Landlords are consolidating their portfolios following the tax changes on mortgage interest and increasing their equity in buy-to-let properties, and this tightening of supply is expected to lead to further increases in rental prices.

New franchising applicant numbers are more than 25% above this point in 2017, and with two offices already opened in Banstead and Poringland we look forward to maintaining the momentum gained in 2017 by targeting to open eight new offices in 2018 in areas affiliated to our extensive London network.

We believe that a broadly flat market will continue to suit our franchise model. Our combination of local expertise, history and knowledge, combined with an evolving platform which drives leads to our office network under the umbrella of an established national brand, is a formula for success. We remain debt free, with a strong cash position and an increasing number of opportunities to grow in 2018.

Dominic Agace
Chief Executive Officer
27 March 2018

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
CONTINUING OPERATIONS			
Revenue		5,423	5,568
Cost of sales		(1,292)	(1,477)
GROSS PROFIT		4,131	4,091
Administrative expenses		(2,829)	(2,746)
OPERATING PROFIT		1,302	1,345
Finance income		74	71
PROFIT BEFORE TAXATION		1,376	1,416
Tax	1	(273)	(290)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,103	1,126
Earnings per share expressed in pence per share:	3		
Basic		8.66	8.84
Diluted		8.66	8.84

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		796	777
Property, plant and equipment		98	116
Investments		7	7
Trade and other receivables		516	716
		1,417	1,616
CURRENT ASSETS			
Trade and other receivables		1,102	1,348
Corporation tax receivable		208	69
Cash and cash equivalents		3,579	2,971
		4,889	4,388
TOTAL ASSETS		6,306	6,004
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	5	64	64
Share premium		1,793	1,793
Other reserves		51	51
Retained earnings		3,742	3,556
TOTAL EQUITY		5,650	5,464
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax		11	16

CURRENT LIABILITIES		
Trade and other payables	645	524
TOTAL LIABILITIES	656	540
TOTAL EQUITY AND LIABILITIES	6,306	6,004

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Called up share capital	Retained earnings	Share premium	Other reserves	Total equity
		£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2016		64	3,334	1,793	51	5,242
Changes in equity						
Transactions with owners						
Dividends	2	-	(904)	-	-	(904)
Total comprehensive income		-	1,126	-	-	1,126
Balance at 31 December 2016		64	3,556	1,793	51	5,464
Changes in equity						
Transactions with owners						
Dividends	2	-	(917)	-	-	(917)
Total comprehensive income		-	1,103	-	-	1,103
Balance at 31 December 2017		64	3,742	1,793	51	5,650

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash generated from operations	4	2,115	1,568
Tax paid		(417)	(452)
Net cash from operating activities		1,698	1,116
Cash flows from investing activities			
Purchase of intangible fixed assets		(224)	(122)
Purchase of tangible fixed assets		(23)	(128)
Interest received		74	71
Net cash from investing activities		(173)	(179)
Cash flows from financing activities			
Equity dividends paid		(917)	(1,132)
Net cash from financing activities		(917)	(1,132)
Increase/(decrease) in cash and cash equivalents		608	(195)
Cash and cash equivalents at beginning of year		2,971	3,166
Cash and cash equivalents at end of year		3,579	2,971

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. TAXATION

Analysis of tax expense

	2017	2016
	£'000	£'000
Current tax:		
Taxation	274	274
Adjustment re previous years	4	(2)
Total current tax	278	272
Deferred tax	(5)	18
Total tax expense in consolidated statement of profit or loss and other comprehensive income	273	290

Factors affecting the tax expense
The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2017	2016
	£'000	£'000
Profit before tax	1,376	1,416
Profit multiplied by the standard rate of corporation tax in the UK of 19.250% (2016 - 20%)	265	283
Effects of:		
Expenses not deductible for tax purposes	7	8
Adjustment in respect of prior periods	4	(2)
taxable		
Depreciation in excess of capital allowances	(3)	1
Tax expense	273	290

2. **DIVIDENDS**

	2017 £'000	2016 £'000
Ordinary shares of 0.5p each		
Interim	917	904

There are no proposed dividends at the reporting date.

3. **EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

2017	Earnings £'000	Weighted average number of shares '000	Per-share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders	1,103	12,733	8.66
Effect of dilutive securities			
Options	-	-	-
Diluted EPS			
Adjusted earnings	1,103	12,733	8.66

Given that the market price of the shares has fallen lower than the strike price, this has made the shares anti-dilutive.

2016	Earnings £'000	Weighted average number of shares '000	Per-share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders	1,126	12,733	8.84
Effect of dilutive securities	-	-	-

Diluted EPS			
Adjusted earnings	1,126	12,733	

8.84

4. RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

Group

	2017 £'000	2016 £'000
Profit before tax	1,376	1,416
Depreciation charges	246	368
Finance income	(74)	(71)
	1,548	1,713
Decrease/ (increase) in trade and other receivables	446	(98)
Increase/ (decrease) in trade and other payables	121	(47)
Cash generated from operations	2,115	1,568

Company

	2017 £'000	2016 £'000
Profit before tax	917	906
Finance income	(917)	(906)
Increase in trade and other payables	-	230
Cash generated from operations	-	230

The movements in liabilities from financing cashflows are nil.

5. CALLED UP SHARE CAPITAL

		2017	2016
Authorised:		£'000	£'000
20,000,000	Ordinary shares of 0.5p	100	100

		2017	2016
Issued and fully paid:		£'000	£'000
12,733,238	Ordinary shares of 0.5p	64	64

6. FINANCIAL INFORMATION

The financial information contained within this preliminary announcement for the year ended 31 December 2017 is derived from but does not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2016 have been filed with the Registrar of Companies and those for the year ended 31 December 2017 will be filed following the Company's annual general meeting. The auditors' reports on the statutory accounts for the years ended 31 December 2017 and 31 December 2016 are unqualified, do not draw attention to any matters by way of emphasis, and do not contain any statements under section 498 of the Companies Act 2006.

7. ANNUAL REPORT AND ACCOUNTS

Copies of the annual report and accounts for the year ended 31 December 2017 together with the notice of the Annual General Meeting to be held at the offices of M Winkworth Plc on 1 May 2018, will be posted to shareholders shortly and will be available to view and download from the Company's website at www.winkworthplc.com

The annual report and accounts will be filed at Companies House in due course.